



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802

May 10, 2005

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach

California

RECOMMENDATION:

Refer the Fiscal Year 2005 Midyear Budget Performance Report to the Budget Oversight Committee (Citywide)

DISCUSSION

This report provides a summary update on the City's Fiscal Year 2005 (FY 05) budget performance through March 2005. The report covers a broad spectrum of financial information for all funds and departments with multi-year comparisons, charts and graphs to provide a clearer picture of the City's financial situation. While the focus of this report is on the General Fund, any significant issues in other funds are noted accordingly.

Summary

As of the Midyear, the Current Adjusted Budget for appropriations for all Departments and all funds is \$2.16 billion. The Current Adjusted Budget for revenues for all Departments and all funds is \$1.72 billion. For the General Fund, the Current Adjusted Budget appropriation for all Departments is \$377.6 million and the Current Adjusted Budget revenues for all Departments are \$363.8 million. The difference between budgeted revenue and expense reflects the use of fund balance, transfers and use of bond proceeds. With 50 percent of the year complete, aggregate revenues and expenditures appear to be trending according to budget.

FY 05 is the second year of the Three-Year Financial Strategic Plan (Plan). As such, over \$72 million in structural budget solutions have been included in the General Fund Budget and related funds over the past two fiscal years. These solutions, which have included the reduction of programs, services and positions, as well as increased revenue and cost recovery, have placed a significant strain on the organization as it downsizes and becomes more efficient. While these solutions have been reflected in the budget, several key measures must be fully implemented to realize structural savings, including \$3 million in negotiated compensation solutions and \$5 million in anticipated salary savings. Furthermore, while resources required to provide public safety, maintenance, library, recreation and other general government services have been reduced significantly, demand for services continues to grow. As a result, departments' ability to remain within appropriation limits while providing high quality service will be a continued challenge as the City implements the Plan and restores equilibrium between the services it provides and the resources available to support them.

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FY 05 General Fund Revenue

With six months, or 50 percent of this fiscal year complete, \$189.4 million (or 52.1 percent) in budgeted General Fund revenue has been received. In aggregate, General Fund revenue is tracking slightly above budget due to an increase in transfers to date and as a result of receiving the City's property tax revenue from the County. The decrease in Sales Tax and Vehicle License Fees are offset by the Property In-Lieu Taxes. The table below highlights year-to-date performance for selected General Fund revenues:

Revenue Source	FY 05 Adjusted Budget	FY 05 YTD Revenue	% of Adjusted Budget	FY 05 Estimates- to-close	Notes
Secured Property Tax	\$57,700,000	\$31,380,747	55.3	\$54,800,000	Payments are received in December and May. The December 2004 payment reflects 7.3 percent growth; this is less than the 8.0 percent growth assumed in the FY 05 budget. Secured Property Tax is expected to finish the year \$1.9 million under budget. While trending above budget, exemptions/delinquencies may be why performance is lower than expected.
Sales and Use Tax (net of sharing agreements and adjusted for the Triple Flip)	\$32,325,000	\$22,356,750	58.8	\$35,355,000	Collections are as expected, with most growth from Pike area and lumber/building materials sales. Amount includes \$4.9 million Property Tax In Lieu of Sales Tax from the State, net of \$384,000 in rebates.
Utility Users Tax	\$40,495,000	\$20,421,981	50.4	\$40,495,000	Collections are trending slightly above budgeted levels. The last 1 percent reduction, from 6 percent down to 5 percent, took effect October 1, 2004.
Business License Tax	\$9,350,000	\$5,097,443	54.5	\$9,550,000	Collections are above budget due to an increased number of licenses and enhanced collection procedures.
Transient Occupancy Tax	\$7,200,000	\$3,600,002	50.0	\$7,876,000	Occupancy rates were at 72 percent through February, which is up 5.4 percent from FY 04 during this time. Average room rates were \$113, up \$4 from FY 04. Revenue from estimated Transient Occupancy Tax is expected to come in approx. \$426,000 over budget in FY 05.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$21,800,000	\$11,614,746	53.3	\$21,211,000	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. Collections are trending slightly above budget.
Pipeline Franchise	\$7,325,000	\$4,819,847	65.8	\$7,923,000	Estimates to finish the year are \$598,000 above budget.
Transfers From Other Funds	\$38,869,491	\$16,601,285	42.7	\$39,973,491	These are expected to finish the year slightly above budget due to higher than budgeted oil transfers.

General Fund revenues for the current year are \$189.4 million, or \$10.3 million more than last year at this time. Overall, General Fund revenue estimates-to-close are at \$365.6 million, which is approximately 0.5 percent more than Current Adjusted Budget. This could equate to over \$1.8 million revenue available for next fiscal year.

Attachment A includes details on the Top 40 General Fund revenues, which combined represent about 91 percent of total revenue. **Attachment B** provides year-to-year analysis on the Top 15 revenue sources, which represents over 30 percent of General Fund revenue. Revenue within the Top 15 categories is on target at 52.5 percent of budget and slightly above FY 04 March YTD actuals.

General Fund Revenue By Department

At the Department level, **Attachment C** provides a summary of General Fund revenue performance. General Fund revenue by department is, among other reasons, impacted by the variances mentioned in the previous section. Many of the departmental variances are captured in the footnotes of this attachment to reflect the continuing impact of the variance. Revenue estimates-to-close for most departments are trending according to budget with several departments estimating revenues higher than the Adjusted Budget revenue.

FY 05 General Fund Expenditure Performance

Attachment D illustrates current expenditure levels for all funds. Expenditures in all funds are at 38.3 percent of budget, due to All Years Funds Carry-over, Capital Improvement Funds and Interfund Transfers. Expenditures for funds without All Years Carry-over are at 50 percent. At midyear, General Fund expenditures are at \$182 million (or 48.2 percent of budget).

Given remaining deficit reduction targets in the Three-Year Financial Strategic Plan for FY 05 and FY 06, it is imperative that maximum savings are generated during the current fiscal year to address current year targets, and to generate resources to balance the FY 06 budget. Given the extent of reductions made to department budgets during FY 04 and FY 05, generating substantial savings has become extremely difficult, especially with the continued expectations for full service delivery to the community. In February, the City Manager reinstated a strict hiring freeze and purchasing curtailment policies with the intent to generate savings to help address the City's ongoing budget challenges. As a result, General Fund Personal Services expenditures are \$133.3 million (or 47.3 percent of the budget.) Based upon midyear estimates-to-close, it appears that General Fund expenditures will finish the year at 99.8% of adjusted budget, generating less than \$1 million in carry-over savings. It is important to note that this projection is based on initial estimates-to-close, which will be revised monthly to reflect urgent operational needs and savings efforts.

FY 05 General Fund Expenditures By Department

As noted above, total General Fund spending is on target at 48.2 percent, with most departments have spent between 35 to 50 percent of their budget. Please see **Attachment E** for a listing of all departments' expenditure performance through March 2005, with no significant exceptions to report.

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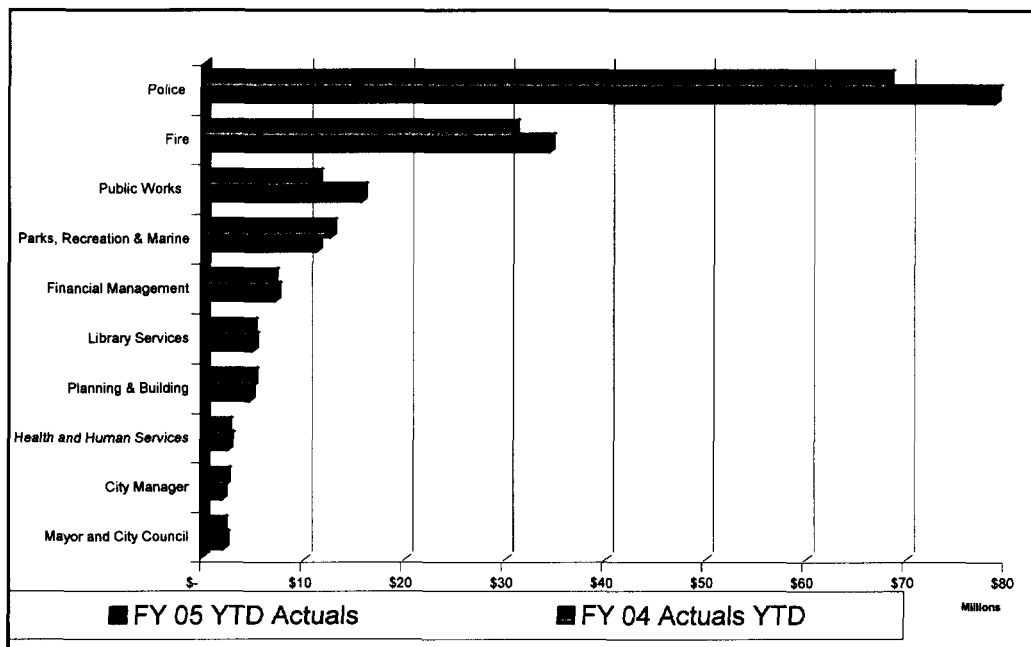
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General Fund spending at the department level is, as anticipated, up 1.6 percent compared to prior year's actual expenditures to date. **Attachment F** includes an FY 04 to FY 05 comparison of expenditure performance by department. On a comparative level, FY 05 expenditures have increased over FY 04 due to:

- Reinstated pension (PERS) contributions that range from 15 to 25 percent of personnel costs, plus increased health insurance costs.
- The Police Department overtime continues to run high in part due to spending on Task Forces to combat violent crime throughout the City and for more focused enforcement toward specific illegal activity at the neighborhood level. Most recently, increased patrols are in effect in and around Cabrillo High School following a shooting earlier this year. This will only exacerbate overtime numbers in future reporting periods.
- Due to the record-setting storm season California has experienced, there has been a significant increase in tree removals, traffic support, beach maintenance, street repairs and public safety services. As a result, an unanticipated increase in overtime and other expenses has occurred.

The following chart compares FY 05 to FY 04 YTD Actuals for the Largest 10 General Fund Departments.



Vacancy Analysis

As a result of the original hiring freeze and the reduced number of budgeted positions, staff throughout the organization has experienced increased workloads. In some cases, especially for employees providing customer support and public works functions, it had become necessary to fill certain budgeted positions to sustain reasonable work flows and response times for these services. As stated earlier, the City Manager reinstated a strict hiring freeze to ensure that critical salary savings would be carried over into FY 06. The hiring freeze does not apply to sworn or dispatch personnel, and critical service delivery and

revenue generating positions are also being filled. As of March 31, 2005, the following vacancies exist:

- For City Manager-directed departments, General Fund vacancies total 179, with another 20 vacancies in Non-City Manager departments.
- Of the 199 vacancies in the General Fund, there are 68 sworn and dispatcher vacancies (resulting from attrition), and 131 civilian vacancies.**
- General and Related Fund vacancies total 263 citywide, and vacancies in all funds total 476 citywide.

**Note that critical positions, such as sworn police and fire, and emergency dispatchers, among others, are exempt from the hiring freeze.

Other Funds and Performance Issues

Storm Damage Costs

Due to the record-setting storm season California has experienced, there has been a significant increase in tree removals, traffic support, beach maintenance, street repairs and public safety services. As a result, an unanticipated increase in overtime and other expenses has occurred. Since the Governor declared a State of Emergency due to storm damage, the City has submitted a request for reimbursement of these storm-related expenses totaling \$6.1 million from the state and federal governments. The Department of Financial Management will monitor this submittal and assess the extent of strain put on the General Fund should reimbursements not materialize.

Oil Revenues

As in FY 04, oil prices continue to rise at a record pace with Wilmington Crude averaging \$35.78/bbl for the fiscal year through February, resulting in additional revenue. Higher expenses associated with increased drilling activity are offsetting, to a large extent, the short-term profitability of the oil operation. Some relief is expected in the form of higher profit transfers to the Tidelands Operating Fund (TOF) and the General Fund. Oil Properties recently increased projections for transfers to TOF by \$1.9 million and to the General Fund by \$1.1 million, increasing the total expected transfers to \$7.9 million and \$7.6 million respectively.

Community Development Block Grant Funding

In preliminary budget sessions, the House of Representatives and the U.S. Senate passed their versions of the Federal Budgets defining targets for spending in broad categories. This included the CDBG program, which saw severe reductions in the House version and restoration in the Senate. The debate on CDBG's future will take place in conference, thereby alleviating the possibility of reductions in CDBG funding for FY 05.

The Midyear Budget Performance Report has identified key performance areas for your consideration. Despite some varied performance in both General Fund revenues and expense, they do not warrant concern or require significant operational changes. All General Fund departments have been instructed to maximize departmental savings and revenue generation to provide resources to achieve FY 05 and FY 06 savings targets. The hiring freeze and spending curtailment policies will continue to create savings opportunities. We

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will continue to provide regular updates to the City Council and community throughout the remainder of the fiscal year. Please let me know if you have any questions or require further information.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

SUGGESTED ACTION:

Approve Recommendation.

Respectfully submitted,

A handwritten signature in black ink, appearing to be "MK" with a flourish, followed by the word "for" in a smaller script.

MICHAEL KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

MK:DW:lp

Attachments

APPROVED:

A handwritten signature in black ink, appearing to be "Gerald R. Miller" in a cursive style.

GERALD R. MILLER
CITY MANAGER